

## Message Text

CONFIDENTIAL

PAGE 01 TAIPEI 02544 01 OF 03 250847Z  
ACTION EB-08

INFO OCT-01 EA-10 ISO-00 COME-00 FMC-01 OES-07 L-03  
CIAE-00 INR-10 NSAE-00 AID-05 NEA-10 DODE-00  
DOTE-00 SP-02 /057 W  
-----047004 250911Z /11  
P 250718Z APR 78  
FM AMEMBASSY TAIPEI  
TO SECSTATE WASHDC PRIORITY 7196  
INFO AMEMBASSY TOKYO PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 02544

TOKYO FOR MARATT

E.O. 11652: GDS  
TAGS: EWWT, TW  
SUBJECT: ROC-MIDDLE EAST CARGO ASSIGNMENT

REF: (A) TAIPEI 02484, (B) STATE 098802, (C) 2343  
- (D) 77 STATE 51887

1. APL AND SEALAND HAVE JOINED SEVERAL OTHER MAJOR FOREIGN CARRIERS IN PRESENTING PETITION TO GROC TO BE ALLOWED TO CARRY CARGO FROM ROC TO MIDDLE EAST ON EQUAL FOOTING WITH NEWLY-ESTABLISHED CHINESE CONFERENCE MEMBERS, WHO CURRENTLY ENJOY BREAK-BULK CARGO MONOPOLY AS A RESULT OF BOFT MEASURES TAKING EFFECT APRIL 17.

2. RESULTS OF MEETINGS BETWEEN CARRIERS AND BOFT, MINISTRY OF COMMUNICATIONS (MOC) OFFICIALS CONCERNING BOFT MEASURES THUS FAR APPEAR TO HAVE CLARIFIED ONE OR TWO ISSUES BUT SITUATION REMAINS BASICALLY CONFUSED. SOME CARRIERS HAVE IMPRESSION THAT EITHER GROC IS TRYING TO PLAY THEM OFF AGAINST EACH OTHER OR THAT CONFUSION EXTENDS TO VARIOUS ORGANS OF GROC ITSELF. LOW-LEVEL BOFT OFFICIAL HAS CONFIDED TO EMBASSY THAT  
CONFIDENTIAL

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PAGE 02 TAIPEI 02544 01 OF 03 250847Z

WHOLE AFFAIR HAS BECOME A QUOTE BIG HEADACHE UNQUOTE. ONE POINT ON WHICH CONTAINER CARRIERS APPEAR TO AGREE IS THAT THEY HAVE BEEN ASSURED BY BOTH RESPONSIBLE MOC VICE-MINISTER AND RESPONSIBLE MOC SECTION CHIEF THAT CONTAINERIZATION MAY BE, BUT NEED NOT NECESSARILY, BE STIPULATED BY PURCHASER IN LETTER OF CREDIT IN ORDER TO BE ACCEPTABLE.

IN OTHER WORDS, IF SUPPLIER SPECIFIES CONTAINERIZATION, IT IS INTENDED BY GROC THAT THIS BE ACCEPTED BY BANKS AND HARBOR AUTHORITIES.

3. HOWEVER, EVEN IF SUCH REPORTED VERBAL ASSURANCES REFLECT ACCURATELY HIGH-LEVEL GROC INTENTIONS, IT IS NOT YET CLEAR WHETHER BANKS AND HARBOR AUTHORITIES WILL RECEIVE DETAILED OPERATING INSTRUCTIONS DESIGNED TO ASSURE FULFILLMENT OF THESE INTENTIONS, OR HOW THEY WILL CHOOSE TO INTERPRET THESE OR THE BASIC BOFT REGULATIONS. IT WOULD APPEAR THAT ONCE CARGO IS IN A CONTAINER AND DELIVERED TO THE DOCK, THERE SHOULD BE LITTLE FURTHER PROBLEM. BUT TO OBTAIN BANK CREDIT TO FINANCE SHIPMENT, AND TO GET CARGO PACKED, ABOARD SHIP, AND OUT OF THE HARBOR, IT IS NECESSARY FIRST TO OBTAIN AN EXPORT LICENSE. IT IS NOT AT ALL CERTAIN WHETHER FUNDS, EXPORT PERMITS, AND OTHER DOCUMENTATION WILL BE ISSUED AND AUTHENTICATED IN CASES WHERE LESS-THAN-FULL-CONTAINER SHIPMENTS ARE INVOLVED--THAT IS WHETHER BOFT, BANKS AND/OR HARBOR AUTHORITIES WILL ALLOW CONTAINER-STUFFING FOR THE CONVENIENCE OF THE CARRIER WHEN COMMODITY IN QUESTION COULD BE SHIPPED BREAK-BULK INSTEAD.

THUS FAR, NO CARRIERS HAVE REPORTED REFUSAL OF PERMITS OF FINANCING OR PERMISSION TO LOAD AND SAIL WITH LESS-  
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CONFIDENTIAL

PAGE 03 TAIPEI 02544 01 OF 03 250847Z

THAN-FULL-CONTAINER CONTAINERIZED SHIPMENTS, AND EMBASSY IS INCLINED TO BELIEVE THAT GROC POLICY IS IN FACT TO CONTINUE TO ALLOW CONTAINER STUFFING. HOWEVER, LACK OF OFFICIAL DOCUMENTS SPELLING THIS OUT PRECLUDES OUR MAKING FINAL JUDGEMENTS ON THE ISSUE AT THIS TIME. FURTHERMORE, IF BANKS AND GROC AGENCIES RESPONSIBLE FOR ENFORCEMENT OF BOFT MEASURE HAVE ALSO RECEIVED NO MORE WRITTEN GUIDANCE THAN IS CONTAINED IN BOFT PUBLIC ANNOUNCEMENT, THEY MAY, IN ORDER TO PROTECT THEMSELVES, INTERPRET MEASURE IN MOST CONSERVATIVE POSSIBLE FASHION, I.E., RULE OUT LESS-THAN-FULL-CONTAINER-LOAD CONTAINERIZATION EVEN THOUGH THERE IS NOTHING IN WRITING STIPULATING THIS.

4. EVEN IF FREEDOM OF SHIPPERS TO SPECIFY CONTAINERIZATION OF CARGO AND OF U.S. VESSELS TO ACCEPT THAT CARGO AS BEFORE REMAINS TOTALLY UNIMPAIRED, NEW GROC MEASURES MAY DO FINANCIAL HARM TO ESTABLISHED CARRIERS, INCLUDING U.S. IRONICALLY, THAT MEASURE MAY, AT SAME TIME, HAVE PRECISELY OPPOSITE EFFECT ON CHINESE-BOTTOM BREAK-BULK SHIPMENTS FROM THAT INTENDED BY GROC. PRIOR TO IMPLEMENTATION OF NEW BOFT REGULATIONS ON APRIL 17, NON-CONFERENCE CARRIERS HAD TO POST PERFORMANCE BONDS WITH

PORT AUTHORITIES BEFORE BEING ALLOWED TO SAIL. THIS MEASURE WAS DESIGNED TO FORCE TRAMP STEAMERS, WHICH COULD NOT RAISE MONEY FOR GUARANTEES, OUT OF MIDDLE EAST SHIPPING BUSINESS.

AT SAME TIME, BUYERS FROM THE MIDDLE-EAST WISHING CONTAINERIZATION FOR THEIR CARGO WOULD REQUEST IT FORMALLY IN THEIR LETTERS OF CREDIT. A STANDARD TARIFF OF ABOUT US DOLLARS 1800 FOR A 20-FOOT CONTAINER COULD BE MAINTAINED BY MAJOR CONTAINER CARRIERS OWING TO FINANCIAL INABILITY OF TRAMP OPERATORS TO SIMULTANEOUSLY UNDERCUT THIS PRICE AND POST PERFORMANCE BONDS FROM WHICH MAJOR CONFERENCE CARRIERS WERE EXEMPT. AT TIME NEW BOFT MEASURES WENT INTO EFFECT, ACCORDING TO SEVERAL CARRIERS, CONFIDENTIAL

CONFIDENTIAL

PAGE 04 TAIPEI 02544 01 OF 03 250847Z

REQUIREMENT FOR POSTING A PERFORMANCE BOND BY FOREIGN

CONFIDENTIAL

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CONFIDENTIAL

PAGE 01 TAIPEI 02544 02 OF 03 250856Z

ACTION EB-08

INFO OCT-01 EA-10 ISO-00 NEA-10 COME-00 FMC-01 OES-07  
L-03 CIAE-00 INR-10 NSAE-00 AID-05 DODE-00 DOTE-00  
SP-02 /057 W

-----047046 250911Z /11

P 250718Z APR 78

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC PRIORITY 7197

INFO AMEMBASSY TOKYO PRIORITY

C O N F I D E N T I A L SECTION 02 OF 03 TAIPEI 02544

NON-CONFERENCE VESSELS WAS DROPPED. ACCORDING TO SAME CARRIERS, PRACTICAL EFFECT OF THIS SERIES OF EVENTS IS LIKELY TO BE AS FOLLOWS: A) THE TRAMPS WILL NOW BE FREE TO ACCEPT CONTAINER CARGO QUOTE USING ANY BOX DREDGED UP FROM THE BOTTOM OF KEELUNG HARBOR ABOARD ANY TUB FROM AFRICA OR SOUTH AMERICA WHICH CAN MAKE IT INTO PORT AND REMAIN AFLOAT LONG ENOUGH TO RECEIVE CARGO UNQUOTE.

MORE TO THE POINT, THESE INDEPENDENT CARRIERS WILL BE ABLE TO OFFER SERVICE SOUGHT BY THE SHIPPER AT HIS INITIATIVE (RATHER THAN BY BUYER IN A LETTER OF CREDIT) AT ABOUT 30 PERCENT LESS THAN CURRENT PREVAILING RATE FOR LETTER-OF-CREDIT-SPECIFIED CONTAINERIZATION; THAT IS, AT ABOUT US DOLLARS 1250 PER 20-FOOT BOX--AND MAJOR CONTAINER CARRIERS WILL HAVE TO MEET THOSE PRICES. B) WITHIN ABOUT TWO WEEKS, MIDDLE EAST PURCHASERS WILL DISCOVER THAT IF THEY NO LONGER SPECIFY CONTAINERIZATION IN LETTERS OF CREDIT, BUT MERELY INSTRUCT SHIPPERS INFORMALLY BY TELEX TO SHIP BEST METHOD, THEY WILL GET CONTAINERIZATION ANYWAY, BUT SAVE 30 PERCENT, WHICH THEY WILL CONSIDER IT IN THEIR INTERESTS TO DO. THIS WILL HAPPEN BECAUSE C) THE NEWLY-ESTABLISHED CHINESE-BOTTOM MIDDLE EAST CONFERENCE CARRIERS ARE BOUND BY A COMMON TARIFF AGREEMENT AND OTHER

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 TAIPEI 02544 02 OF 03 250856Z

STIPULATIONS SET BY THE GOVERNMENT WHICH WILL RESULT, AT LEAST TEMPORARILY, IN BREAK-BULK RATES AS HIGH OR NEARLY AS HIGH AS THE NEW CONTAINER RATES, AND AN INABILITY OF CHINESE CARRIERS TO ARBITRARILY LOWER THESE RATES IN ORDER TO COMPETE.

HOWEVER, UNLESS THEY DO IN FACT LOWER THEIR RATES, THEY WILL LOSE MUCH OF THEIR BUSINESS TO THE TRAMP CONTAINER OPERATORS, SINCE NO ONE IS LIKELY TO SHIP BREAK-BULK WHEN HE CAN GET DOOR-TO-DOOR CONTAINER SERVICE FOR THE SAME PRICE AND A CIF SHIPMENT IS INVOLVED. YET, ONE OF THE PRIMARY REASONS FOR ESTABLISHING THE NEW CONFERENCE AND GIVING IT A BREAK-BULK MONOPOLY WAS TO GENERATE SUFFICIENT OPERATING REVENUE TO ENABLE IT TO PROVIDE SATISFACTORY SERVICE TO THE MIDDLE EAST AND ITS MEMBERS TO OPERATE IN THE BLACK-PROBABLY AN IMPOSSIBILITY WITH LOWERED TARIFFS. D) WITHIN A MONTH TO SIX WEEKS, MALPERFORMANCE OF THE INDEPENDENT CONTAINER CARRIERS WILL BECOME EVIDENT TO MIDDLE EAST BUYERS, WHO WILL COMPLAIN AS LOUDLY AS THEY HAD EARLIER ABOUT POOR BREAK-BULK SERVICE' THE PROBLEM THUS WOULD MERELY HAVE SHIFTED FROM BREAK-BULK TO CONTAINER SHIPMENTS, WITHOUT BEING SOLVED.

THE REPUTATION OF THE ROC WOULD HAVE BEEN DONE FURTHER HARM, AND BOTH ESTABLISHED FOREIGN CARRIERS AND THE REPUTABLE CHINESE PARTICIPANTS IN THE NEW MIDDLE-EAST BREAK-BULK CONFERENCE WOULD HAVE BEEN HURT, WHILE THE TRAMP OPERATORS WOULD HAVE GAINED AT EVERYONE ELSE'S EXPENSE. AS A RESULT OF SUCH LIKELIHOODS, AT LEAST ONE MAJOR (NON-US) CARRIER EXPECTS THAT THE GROC WILL BE FORCED TO BACK DOWN ALTOGETHER.

CONFIDENTIAL

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PAGE 03 TAIPEI 02544 02 OF 03 250856Z

5. THE GROC MAY HAVE BITTEN OFF MORE THAN IT CAN CHEW POLITICALLY EVEN IF IT LIMITS CARGO ASSIGNMENT TO BREAK-BULK. THE WORDING OF THE BOFT ANNOUNCEMENT APPEARING IN NEWSPAPERS IS SUCH THAT IT COULD BE INTERPRETED TO EXCLUDE FROM ROC-MIDDLE EAST TRADE KUWAITI, SAUDI ARABIAN, AND IRANIAN VESSELS FLYING FLAGS OF CONVENIENCE, TO SAY NOTHING OF MAJOR JAPANESE AND EUROPEAN LINES. AS A CONSEQUENCE, EMBASSY WOULD NOT BE SURPRISED TO SEE A GREAT DEAL OF RECONSIDERATION AND REDEFINING OF ELIGIBILITY TO RECEIVE CARGO WITHIN NEXT FEW WEEKS, GIVEN ENORMOUS POTENTIAL RETALIATORY POWER OF COUNTRIES AND REGIONS JUST MENTIONED.

6. EMBASSY RECOGNIZES THAT MUCH OR ALL OF SCENARIOS DEPICTED IN PARAS 4 AND 5 COULD BE PREVENTED FROM MATERIALIZING BY ANY NUMBER OF POSSIBLE GROC MOVES, AND, AT VERY LEAST, ARE SUBJECT TO DRASTIC REVISION AS GROC MOTIVES AND PROCEDURES BECOME CLEARER. EMBASSY FURTHER RECOGNIZES A) THAT PRESENT CONTAINER RATE STRUCTURE IS HARDLY SET BY COMPETITIVE MARKET FORCES AND B) THAT GROC MAY HAVE A LEGITIMATE DESIRE TO INJECT A MODICUM OF COMPETITION--PROVIDED THAT IT CAN AT THE SAME TIME MAINTAIN CERTAIN MINIMUM STANDARDS OF SERVICE, AND C) THAT THE REPRESENTATIONS OF THE USG IN BEHALF OF U.S. CARRIERS IN THIS MATTER, SHOULD THEY BECOME NECESSARY, SHOULD PROPERLY BE LIMITED TO ISSUE OF DISCRIMINATION AND SHOULD NOT ENCOURAGE MAINTENANCE OF OLIGOPOLY PRICING, HOWEVER, PREVALENT IN THE INDUSTRY OR HOWEVER USEFUL IN MAINTAINING PERFORMANCE STANDARDS.

7. U.S. AND OTHER MAJOR CONFERENCE AND NON-CONFERENCE CARRIERS APPEAR LESS WORRIED ABOUT IMMEDIATE POSSIBLE EFFECTS OF NEW BOFT MEASURES THAN ABOUT CREATION OF A BAD PRECEDENT. ADMISSIONS BY THE MOC THAT IT REGARDS THE MIDDLE EAST ARRANGEMENT AS A POSSIBLE PRECURSOR TO CARGO ASSIGNMENT ON A WORLD-WIDE BASIS HAVE REACHED THE PRESS, CONFIDENTIAL

CONFIDENTIAL

PAGE 04 TAIPEI 02544 02 OF 03 250856Z

IN ADDITION TO HAVING BEEN RELIABLY REPORTED TO EMBASSY

CONFIDENTIAL

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CONFIDENTIAL

PAGE 01 TAIPEI 02544 03 OF 03 250856Z

ACTION EB-08

INFO OCT-01 EA-10 ISO-00 NEA-10 COME-00 FMC-01 OES-07

SP-02 CIAE-00 INR-10 NSAE-00 AID-05 DODE-00

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-----047051 250910Z /10

P 250718Z APR 78

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC PRIORITY 7198

INFO AMEMBASSY TOKYO PRIORITY

C O N F I D E N T I A L SECTION 03 OF 03 TAIPEI 02544

FROM INDUSTRY SOURCES. FACT THAT YANGMING AND OTHER  
CHINESE LINES--FLAG AND NON-FLAG--ARE ATTEMPTING TO  
ACQUIRE CONTAINER CAPABILITY AS RAPIDLY AS POSSIBLE,  
COUPLED WITH ANNOUNCED POLICY OF GROC TO PROMOTE SHIPMENT  
OF CHINESE GOODS IN CHINESE SHIPS BUILT IN CHINESE SHIP  
YARDS DOES LITTLE TO CALM THESE FEARS. UNGER

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## Message Attributes

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